

Mr. Chairman and members of the Committee, my name is Dan Pegg. I am Senior Vice President of Leap Wireless International and I appreciate the opportunity to be before you today.

Leap Wireless International, Inc. ("Leap") is a wireless carrier that deploys, owns and operates networks in domestic and international markets with strong growth potential. Through its operating companies, Leap has launched or is in the process of launching all-digital wireless networks in Mexico, Chile, and the United States. We are dedicated to bringing the economic benefits of reliable, cost-effective and high-quality voice and data services to domestic and emerging markets. Leap was spun off from Qualcomm Incorporated as an independent company in September 1998. The company is listed on the Nasdaq National Market under the symbol LWIN and had approximately 80,000 shareholders and 18.2 million shares outstanding as of July 1, 1999.

Leap is working to expand the wireless world by providing need-based, value-priced, quality services to underserved market segments. Common synergies of Leap operating companies include high-quality, 100 percent digital voice systems, dedicated local management, innovative service offerings, strong marketing and distribution channels, and premium customer care.

In the United States, Leap's operating concept, is called CricketSM and that will be the focus of my remarks today. Cricket is designed to change the way wireless telephones are used by offering a unique service that meets the needs of the mass consumer market. Cricket's flat-rate service is designed to make wireless communications a simple, worry-free, and affordable alternative for local calling. For \$29.95 per month our customers can use their Cricket phones as much as they wish. By offering a compelling value and customer-friendly product, Cricket is capturing a previously underserved market segment and achieving remarkable market penetration. In fact, the vast majority of Cricket customers are completely new to wireless. Just as Southwest Airlines created a new value standard and expanded the market for airline travel, Cricket is seeking to change the way consumers think about and use wireless.

The Cricket service model was introduced in March 1999 in Chattanooga, Tennessee by Chase Telecommunications working together with Leap. The Cricket service lets customers make and receive all the calls they want within the local service area for one low, flat rate. While roaming is not available, full mobility exists within the local area in which people live, work and play. As of August 31, 1999, approximately 12,400 subscribers had chosen Cricket as their service provider, bringing Cricket's total penetration of the Chattanooga market to 4 percent of covered POPs after only two quarters of operation – a remarkable achievement for a wireless company.

In total, Leap has licenses or rights to acquire licenses to offer the Cricket service to approximately 24 million potential subscribers (1998 POPs). Leap will be launching Cricket in cities across middle America through the next 24 months. Through the introduction of Cricket, Leap believes that it will change not only the way telephones are used, but also provide a viable, affordable alternative to the

current wireless service for consumers. Leap will achieve this goal because we are new and innovative, allowing us to take the full advantage of both technology and efficiency that comes with change. As an example, Leap believes that Cricket's customer acquisition costs will be significantly lower than those of a typical PCS company due to our simple and straightforward product. Cricket's planned simple billing, lower customer care cost, lower distribution cost, and lower bad debt cost from a pay-in-advance system are designed to re-shape the economic models of wireless and virtually all telephone service delivery.

Cricket brings wireless communications to the mass market in the same way Ford created affordable automobiles, Walmart created an affordable retail shopping destination, or, as I mentioned, Southwest Airlines created affordable air travel. Cricket is striving to deliver on the promise of the 1996 Telecommunications Act, which was intended to create competition in the local loop and increase accessibility and affordability so that everyone can enjoy the benefits of improved communications. Our service isn't like traditional wireless service, because customers can call without worrying about paying by the minute. It's not like a home (landline) phone, because it works well beyond the range of home cordless phones.

Unlike many communications companies, Cricket differentiates itself by starting with the needs of the consumer, and using technology to deliver what they want and need. Every aspect of Cricket service is considered from the consumer point of view before it is fully developed. Many current newer communications alternatives are aimed at the business customers, along with most of the incumbents that compete both in the local loop and for communications services in general. Cricket does not target the business user or the current wireless user. Most of them have different needs, like roaming outside the local area (which Cricket does not offer), or the ability to connect to the office computer to check e-mail or access the Internet. Neither of these capabilities is a priority for Cricket's target, the non-wireless user who lives, works and plays in the local area.

The convenience of making and receiving phone calls away from the home provides many benefits to these people at costs close to landline is overwhelming given the increasing demands on consumers time. Staying in touch with friends, family, business contacts is still important, but there is less time available to do this. Wireless service allows people to use "down time" – time spent going from place to place, standing in line, running errands, as productive time, or communication time. The usefulness of a landline phone as a voice communication tool is diminishing. More and more often the landline telephone jack in the wall is being used for Internet access, e-mail, etc. and less for voice conversations. Being "tethered" to the home is becoming more of a constraint as lifestyles continue to become more active and on the move.

Research indicates that two main concerns are keeping interested non-users from going wireless:

First, they realize they will use a wireless phone frequently, and are afraid of what it will cost. That's because available wireless services are "open-ended." The total bill depends on minutes of use, regardless of whether a big bucket of minutes are included in a rate plan (large monthly fee) or whether additional minutes beyond the bucket amount are used. They would be afraid to give out their number because they pay by the minute for incoming calls, too. Moving towards wireless requires consumers to move out of the billing experience that they have become accustomed to with their fixed local loop

service.

Second, they are confused by wireless offerings and don't trust wireless providers, who sometimes have used sales tricks and gimmicks in the past to lure, then surprise, subscribers. They've heard the horror stories from wireless users. These include:

- Poor voice quality

- Phones for free (what's the catch?)

- Long term contracts that require a stiff cancellation fee (that's the catch!)

- Confusing and complicated rate plans which cause anxiety about choosing the right one

- Hidden charges, like landline interconnect, roaming, peak/off peak pricing, activation fees

- Fine print

- Poor customer service

- Misleading advertising

- Prepay offerings, which penalize credit-challenged people with high "per-minute" rates.

In contrast to these pitfalls, the Cricket offering has been so well received that in Chattanooga, 62% of all new PCS/Cellular additions have been Cricket. The Cricket service has achieved an amazing 4% penetration in less than six months. And, based on market research, 61% of Cricket subscribers use Cricket service as their primary service for personal calls. At \$29.95 per month, with no hidden costs or credit checks, Cricket not only brings wireless telephony to the mass market -- it brings true competition to the local loop.